Expanding Market-Neutral Palette

Stockholm (HedgeNordic) – DNB Asset Management's multi-strategy, multi-asset absolute return fund has become more diversified with the addition of another market-neutral strategy that focuses on financial stocks. **DNB Fund Multi Asset** recently added another European quant-based market-neutral strategy to its set of sub-strategies.

"We have launched the long/short strategy DNB Financials Absolute Return under the umbrella fund DNB Multi Asset," Kjell Morten Hjørnevik and Knut Bakkemyr of DNB's Global Financials investment team write in a post. DNB's financials-focused absolute return strategy is yet another ingredient in DNB Fund Multi Asset, which allocates across a number of strategies managed by different teams at DNB Asset Management. "The strategy's investment universe will be within financials stocks, and the market risk will be hedged out," the duo adds. "The return in the strategy will depend on our investment philosophy, process and knowledge (stock picking/portfolio management abilities) and to a lesser degree on market development."

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The strategy targets an annual return of three-month EURIBOR plus five percent, aiming to generate stable and uncorrelated returns. The team running DNB's Financials Absolute Return strategy is also managing long-only equity fund DNB Finans. Hjørnevik and Bakkemyr have 20 years of experience on average in equity markets. "We are 100 percent focused on the financial sector and believe that deep industry knowledge is an asset in the quest to generate alpha," writes the duo.

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"The financial sector is one of few sectors that in aggregate appears to be inexpensive – both absolute and especially relative to MSCI World – even though there is large price dispersion among stocks within each sub-sector in the financial universe," reckon Hjørnevik and Bakkemyr. With the financial sector facing headwinds from increased regulation, lower interest rates, and new disruptive start-ups, technologies and innovations, "we believe the dynamics of the financial sector will crystallize substantial winners and losers, something that will provide alpha opportunities for us as active managers in the sector."

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The financial sector also acts as a natural risk management element for the fund's portfolio of short positions. "We are acutely aware that one of the main risks in shorting stocks is the asymmetric profit profile," write Hjørnevik and Bakkemyr. "If a stock falls to zero, a short position gives a 100 percent positive return. However, as a shorted stock may go up multiple times, the potential loss may in theory be infinite," the duo elaborates. "Most of the stocks in the financial sector, however, are typically mature and massive spikes in short time periods rarely occur. For this reason, we would argue that going short stocks in the financial sector is in general less risky than in many other sectors."

The strategy's investment universe consists of about 2,000 companies, with the team aiming to build and maintain a portfolio of around 80 holdings. The long portfolio will house between 30 and 40 positions, whereas the short portfolio will be more diversified with 40 to 50 positions. "The position size in the portfolio is a result of conviction level and constrained by potential up-/downside," write Hjørnevik and Bakkemyr. "We have a clear investment philosophy and a structured investment process with emphasis on risk management and capital preservation."

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